

## Global Overview

### Mixed week for equities

It was a good week for equities overall. While good earnings and economic data from the US helped support markets, gains were pared late in the week as the US budgetary cuts were brought into force, increasing fears that economic expansion may be under threat.

### US spending cuts

With the passing of the deadline set for the agreement on the US budget, President Obama ordered the start of \$85 billion in government spending cuts for the remainder of this fiscal year. With Democrats and Republicans deadlocked on an agreement, cuts which will amount to \$1.2 trillion over a nine year period came into force.

### Weak eurozone data

A gauge of eurozone manufacturing indicated it was still in contractionary territory, while unemployment in the region climbed to 11.9% in January, the highest since the data series began in 1995.

### Currencies

The euro posted its longest stretch of weekly losses against the dollar since June, as demand was hurt following Italy's election produced a hung parliament. The €/£ rate finished the week just shy of 1.30, a weakening of 1% over the week.

### Oil

Oil prices slipped to the lowest level since early January, as manufacturing expanded less than forecast in China and contracted in Europe, bolstering concern that fuel demand will decline.

	Index	Year to Date Return 31.12.12 to 01.03.13		1 Week Return 22.02.13 to 01.03.13	
		Local Currency %	Euro %	Local Currency %	Euro %
Global	FTSE World	6.5	6.2	0.5	1.4
US	S&P 500	6.5	7.7	0.2	1.3
US	NASDAQ	5.0	6.2	0.3	1.4
Europe	FT/S&P Europe Ex. U.K.	3.8	3.8	0.2	0.2
Ireland	ISEQ	10.8	10.8	1.8	1.8
UK	FTSE 100	8.2	1.4	0.7	0.4
Japan	Topix	14.5	7.1	2.2	3.1
Hong Kong	Hang Seng	1.0	2.2	0.4	1.6
Australia	S&P/ASX 200	9.4	8.8	1.4	1.4
Bonds	Merrill Lynch Euro over 5 year Govt.	-0.3	-0.3	0.4	0.4

## Global Equities



### United States

#### Overview

The S&P 500 Index rose marginally over the week as better-than-expected economic data overshadowed concern over the federal spending cuts. New home sales jumped, consumer spending rose and American factories expanded output at the fastest pace in almost two months.

**Homebuilders** – An index of homebuilders climbed 1.5% as home sales increased more-than-forecast. Home Depot rose over 5% after it raised its dividend and approved a \$17 billion share buyback programme after strong earnings results.



## Europe

### Overview

European stocks finished the week higher, but gains were pared amid concern the US spending cuts may slow the world's largest economy.

**Stocks** – Deutsche Bank fell to its lowest level since December as Goldman Sachs downgraded the stock. Germany's biggest lender may have to transfer \$13 billion to a unit in the US to meet capital rules on foreign banks, proposed by the Federal Reserve.



## Ireland

### Overview

The Irish market was the week's best performer, rising almost 2% overall. Earnings season for the week was good, with Kingspan, Kerry Group and CRH all announcing good earnings results.



## Asia Pacific

### Overview

It was a good week for Asian markets. Japan's Topix Index rose over 2%, while Hong Kong's Hang Seng Index and Australia's S&P/ASX200 also rose. China has called for higher down-payments and interest rates for second-home mortgages in cities with 'excessively fast' price gains. It also ordered stricter enforcement of taxes on sales as authorities step up a three-year campaign to cool the property market.

## Bonds

Spanish bond prices rose marginally over the week, in spite of a political impasse that sent Italian yields to a three-month high. Separately, German bund prices rose as month-end sales extensions helped demand for bonds and eurozone unemployment climbed to a record. The Merrill Lynch over 5 year government bond index rose 0.4% over the week.

## Global Outlook

- The general global growth backdrop remains reasonably supportive for risk assets with a small improvement in global activity likely in 2013, albeit one that is less powerful than trend rates of growth. For example, the US is expected to grow by a couple of percent again this year, with many commentators pointing to the potential for higher than that. Analysts see eurozone growth remaining in mildly negative territory this year but this again masks divergences among countries. China, which dominates the Asian growth picture, is expected to grow around 8% in 2013, similar to last year's rate. Inflation is seen to be a non-issue for investors again this year.
- Short rates are set to remain at ultra-low levels in the major economies for a protracted period to come. In the US the continuation of extraordinary policy measures is now conditional on trends in the unemployment and inflation rates but, barring a major policy reversal, overall policy is expected to remain very supportive. Other central banks remain either neutral in their stance or will ease policy further. For the ECB, the key issue remains how peripheral economies develop over the year. Most analysts expect that the ECB will stay highly accommodative during 2013 as it continues to try to heal the peripheral debt crisis and support economic growth in the region.
- Many commentators speak of a 'bubble' in the bond market although most still see rates rising gently – rather than significantly – over the next year. The main reason for this is that it is expected that central banks will continue to 'sponsor' a low interest rate structure until economic recovery is more durable. So the current drift *lower* in long-term rates in Germany and the US – after the rise in January – should not be a major surprise. Italian bond spreads are rising at the moment, given the political uncertainty. The knock-on impact to other markets is limited for now. However, with positive investor sentiment on the periphery now quite high, these markets are more vulnerable to bad news flow and setbacks would not be unexpected.
- Equity market valuations are within historic ranges and, hence, are reasonably valued. Earnings growth expectations are reasonably strong for 2013, although most investors are probably already discounting a slower earnings scenario than published consensus estimates. On a relative basis, most market strategists view equities as being much better value than bonds and, additionally, the general view is that equities are also being supported by central bank liquidity and that any falls will be short-lived and will be bought by investors. Global equities in euro terms have gained 6% so far this year, helped by euro weakness. Currently any setbacks are likely to be seen as buying opportunities by most investors. We are looking at the current setback in European markets as a possible opportunity.
- Zurich Life funds are close to neutral in equities and are running only modest positions in bonds versus the manager average. Within equity sectors, the funds are underweight energy and basic materials and overweight consumer services. Geographically, the funds are underweight in Europe and the UK, slightly overweight in the Pacific region and broadly neutral in the US and Ireland.

This outlook does not constitute an offer and should not be taken as a recommendation from Zurich Life.  
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